KARNATAKA STATE WOMEN'S UNIVERSITY, VIJAYAPURA

DEPARTMENT OF PG STUDIES AND RESEARCH IN MANAGEMENT

SYNOPSIS

ON

"AN EMPIRICAL STUDY ON INVESTMENT BEHAVIOUR OF MUTUAL FUND INVESTORS IN NORTH KARNATAKA REGION – WITH SPECIAL REFERENCE TO VIJAYAPURA AND KALABURAGI DISTRICTS."

Submitted to the Karnataka State Akkamahadevi Women's University, Vijayapura.

For the Degree of

Doctor of Philosophy

In

Management

Research Supervisor

Prof. S.B.Kamashetty (M com, M.B.A, M phil. PhD)

Department of Commerce and Management,

KSAWU, Vijayapura.

Research Scholar

Prema (M.B.A)* 2016*

"An Empirical study on investment behaviour of Mutual fund investors in North Karnataka Region –with special reference to Vijayapura and Kalaburagi districts.

INTRODUCTION

A Mutual Fund is promoted by a sponsor and run by a trust that pools the savings of a number of retail investors who share a common financial goal. The money collected by selling units of mutual funds is invested by the fund manager in different types of securities like shares, bonds, short-term instruments depending on the objective of the scheme. For an individual investor, a Mutual Fund offers a diversified, professionally managed portfolio at a relatively low cost. Anybody with an investable surplus of as little as a few thousand rupees can invest in Mutual Funds. Each Mutual Fund scheme has a defined investment objective and strategy.

From its inception, the growth of the Indian mutual fund industry was very slow, and it took really long years to evolve the modern-day mutual funds. The primary motive behind mutual fund investments is to deliver a form of diversified investment solution.

Over the years, the idea developed and people received more and more choices of diversified investment portfolios through mutual funds. The credit goes to the unit trust of India (UTI) for introducing the first mutual fund in India. In recent years, the Indian money and capital market has shown tremendous growth and expanded its reach to wider geographical limits. Indian regulators, in the money and capital market, have actively participated in framing regulations that give confidence to both individual and institutional institutions for participation.

Progressive reforms have taken place with the initiative of the Security Exchange Board of India (SEBI), capital market regulator in India which facilitates savings. As a financial intermediary, mutual fund has played a significant role in the development and growth of capital markets in India. According to the various surveys, conducted in India by SEBI, the National Council of Applied Economic Research (NCAER) and asset management companies (AMCs), small salaried investors generally go for bank deposits, government-sponsored small savings.

Schemes or endowment life policies for tax-saving purpose, which do not provide hedge against inflation and often land up earning negative real returns.

With the passage of time, India has witnessed many new and innovative mutual funds. However, there has been a paradigm shift in the methods and ways of selling these funds also changed with time.

It is continuing to evolve to a better future, where the investors will get newer opportunities. In this era of globalization and competition, the success of this industry is determined by the market performance of its stock.

During the period of this study, the performance of the mutual fund industry was not as per the expectation because of the underperformance of the secondary market and the imposition of a ceiling on the expense ratio and entry load charges by the capital market regulator.

With regenerated combined efforts of the brokerage houses and the fund managers and with the backing of market regulators, and extensive awareness programs for investors, investments in mutual funds schemes are bound to get a boost.

MUTUAL FUND CONCEPT

Definition: "A mutual fund is a professionally-managed investment scheme, usually run by an asset management company that brings together a large number of investors and invests their money in stocks, bonds and other securities in line with their objectives as specified in the offer document".

TYPES OF MUTUAL FUND SCHEMES

Mutual funds come in many varieties, designed to meet different investor goals. Mutual funds can be broadly classified based on –

1. Organization Structure – Open ended, Close ended, Interval
2. Management of Portfolio – Actively or Passively
3. Investment Objective – Growth, Income, Liquidity

4. Underlying Portfolio – Equity, Debt, Hybrid, Money market instruments, Multi Asset
5. Thematic / solution oriented – Tax saving, Retirement benefit, Child welfare, Arbitrage
6. Exchange Traded Funds
7. Overseas funds
8. Fund of funds

BENEFITS OF INVESTING IN MUTUALFUNDS:

The various benefits offered by Mutual funds to the general public have been list below;

1**. Professional Management** — Investors may not have the time or the required knowledge and resources to conduct their research and purchase individual stocks or bonds. A mutual fund is managed by full-time, professional money managers who have the expertise, experience and resources to actively buy, sell, and monitor investments. A fund manager continuously monitors investments and rebalances the portfolio accordingly to meet the scheme's objectives. Portfolio management by professional fund managers is one of the most important advantages of a mutual fund.

2. Risk Diversification — buying shares in a mutual fund is an easy way to diversify your investments across many securities and asset categories such as equity, debt and gold, which helps in spreading the risk - so you won't have all your eggs in one basket. This proves to be beneficial when an underlying security of a given mutual fund scheme experiences market headwinds. With diversification, the risk associated with one asset class is countered by the others. Even if one investment in the portfolio decreases in value, other investments may not be impacted and may even increase in value. In other words, you don't lose out on the entire value of your investment if a particular component of your portfolio goes through a turbulent period. Thus, risk diversification is one of the most prominent advantages of investing in mutual funds.

3. Affordability & Convenience (Invest Small Amounts) — for many investors, it could be more costly to directly purchase all of the individual securities held by a single mutual fund. By contrast, the minimum initial investments for most mutual funds are more affordable.

4. Liquidity — you can easily redeem (liquidate) units of open ended mutual fund schemes to meet your financial needs on any business day (when the stock markets and/or banks are open), so you have easy access to your money. Upon redemption, the redemption amount is credited in your bank account within one day to 3-4 days, depending upon the type of scheme e.g., in respect of Liquid Funds and Overnight Funds, the redemption amount is paid out the next business day.
However, units of close-ended mutual fund schemes can be redeemed only on maturity. Likewise, units of ELSS have a 3-year lock-in period and can be liquidated only thereafter.

5. Low Cost — an important advantage of mutual funds is their low cost. Due to huge economies of scale, mutual funds schemes have a low expense ratio. Expense ratio represents the annual fund operating expenses of a scheme, expressed as a percentage of the fund's daily net assets. Operating expenses of a scheme are administration, management, advertising related expenses, etc. The limit of expense ratio for various types of schemes has been specified under Regulation 52 of SEBI Mutual Fund Regulations, 1996.

6. Well-Regulated — Mutual Funds are regulated by the capital markets regulator, Securities and Exchange Board of India (SEBI) under SEBI (Mutual Funds) Regulations, 1996. SEBI has laid down stringent rules and regulations keeping investor protection, transparency with appropriate risk mitigation framework and fair valuation principles.

7. Tax Benefits —Investment in ELSS up to ₹1,50,000 qualifies for tax benefit under section 80C of the Income Tax Act, 1961. Mutual Fund investments when held for a longer term are tax efficient.

Behavioural Finance: An Overview

- Behavioural finance helps in understanding human behaviour and their perceptions in the process of decision-making in finance. New ideas and models are made that can predict and explain market behaviour from different psychological biases. Behavioural Finance

describes that people sometimes fail to react logically to new information as they fail to pursue the above framework. This is due to the inability of humans to distinguish information that needs proper and value judgment. Behavioural finance focused on how psychological bias influences outcomes of market.

- It can be analyzed to understand various results across different industries and sectors.
- Main feature of behavioural finance studies is the impact of "psychological biases".

Behavioural finance is an analysis of the decision making of non- professional investors. Traditional behavioural finances do not deal with the questions "why" investors make different types of decisions according to **Bikas, Jureviciene, Dubinskas, & Novickyte, (2013)**. Behavioural finance deals with two important aspects, i.e., the entire market and individual investors.

Behavioural Factors influencing investment behaviour

Investment behaviour is a difficult and complicated matter to understand and has many scopes. It consists of psychological factors and behavioural factors including sociological and demographical factors along with various other quantitative and qualitative factors. While taking investment decisions, every investor thinks differently. Investors like to invest their savings in those instruments that have low risk and high returns. An investor's decisions are based on investment purpose which may differ from individual to individual based on the risk-tolerance level and objectives for which the investment was made. Individual investors choose different investment avenues by considering different factors that influence the decision.**(Mailcontractor and Ingalagi, 2019).**

Conceptual Framework of Research Model: psychological biases (attributes) considered for the study

- **Familiarity Bias-** The familiarity bias results when an investor chooses a familiar investment among several other viable options available to invest, which can be much better in terms of portfolio diversification. This happens when investors usually invest according to their knowledge and prefer to invest in local-owned investments or domestic companies. Due to the narrow information, investors are not able to explore multiple sectors and other types of investments that can decrease risks. Investors usually prefer investments that they are familiar with or have history.
- **Self-attribution bias-** Self-attribution bias is a tendency of human beings in which they attribute good results to their skills, and bad outcomes to bad luck. People attribute the reasons for the outcome according to what they feel best.
- **Overconfidence bias-** can be explained as a badly timed belief for a spectator, reasoning, judgments, and a person's cognitive skills. Overconfidence includes 2 components, i.e., an investor's overconfidence in his or her quality of information and their ability to perform this information at the correct time to get maximum profits. It was observed that traders with overconfidence perform trade more frequently and become unsuccessful in clearly diversifying the portfolio.

NEED FOR THE STUDY

The growth of a financial system and its robustness depend upon its liquidity. Further, the liquidity depends upon the trust and dynamism of the stakeholders like Asset Management Companies, stock market intermediaries, brokers and most importantly the investors. Once the investors trust the market, it becomes easier for all the stakeholders to mobilize the funds. However, more than the trust, it is important to see how the behaviour of investor can be modified and accordingly how the strategies to attract the investments can be channelized. All this requires a thorough study of the investor's behaviour, hence to contribute towards the best of

the market and financial system; I felt that there is a need to study the investors' behaviour from all aspects – demographics, reference groups, ethical and behavioural.

STATEMENT OF THE PROBLEM

The review of existing literature leads to the certain important gaps in the area of investors' behaviour towards the mutual funds. It was realized that there is a huge scope to understand the general investment behaviour of investor and the behaviour towards the mutual fund investment so that a comprehensive prospect towards investment behaviour may be captured. More importantly, the research gaps also led towards a specific investigation in the context of the southern India and, to make the study more fruitful and focused vijayapura and Kalaburagi districts of North Karnataka were chosen as regions for investigation. Finally considering all the following statement was formulated: ***"An empirical study on investment behaviour of Mutual fund investors in North Karnataka region – with special reference to Vijayapura and Kalaburagi districts."***

OBJECTIVES OF THE STUDY

The research is undertaken to achieve the under-noted objectives;

1. To study the investment patterns and preferences for different investment avenues of investors of selected districts of the North Karnataka region.
2. To study the investment behaviour of individual investors towards Mutual Funds in selected districts of the North Karnataka region.
3. To ascertain the individual investors' perceived awareness and knowledge about the Mutual Funds in selected districts of the North Karnataka region.
4. To investigate the influence of Reference Groups on investors' behaviour towards Mutual Funds in selected districts of the North Karnataka region.
5. To study the awareness of investors about the Ethical funds or SRI (Socially Responsible Stocks)

6. To find the impact of overconfidence, self-attribution bias and familiarity bias on investors behaviour towards mutual funds.
7. To study the impact of select demographic variables (Gender, age, income, education, occupation and saving) on individual investors behaviour towards mutual funds in selected districts of the North Karnataka region.

RESEARCH HYPOTHESIS

H01 There is no Influence of investment behaviour of individual investors towards Mutual Funds on Investors' decision about investing in mutual funds

Ha1 There is a significant Influence of investment behaviour of individual investors towards Mutual Funds on Investors' decision about investing in mutual funds

H02 There is no relationship in investment preference of investors among mutual funds and conventional investment avenues

Ha2 There is a significant relationship in investment preference of investors among mutual funds and conventional investment avenues

H03 There is no reference group influence on investment of mutual funds

Ha3 There is a significant reference group influence on investment of mutual funds

H04 Investors are not adequately aware about the Ethical funds or SRI (Socially Responsible Stocks)

Ha4 Investors are adequately aware about the Ethical funds or SRI (Socially Responsible Stocks)

H05 There is no impact of behavioural biases - overconfidence, self-attribution, and familiarity on investment behaviour towards mutual funds

Ha5 There is a significant impact of behavioural biases - overconfidence, self-attribution, and familiarity on investment behaviour towards mutual funds.

H06 There is no association between the demographic variables and investors' investment behaviour towards Mutual Funds

Ha6 There is no association between the demographic variables and investors' investment behaviour towards Mutual Funds

SCOPE OF THE STUDY

The present study has been conducted in the North Karnataka region and includes the districts of – Belagavi, Bagalkot, Bidar, Bellary, Kalaburagi, Vijayapura Yadagiri, Raichur, Gadag, Dharwad, Haveri and Koppal districts. Of which, geographically, the study is limited to the Vijayapura and Kalaburagi districts of the North Karnataka region.

Hence, the study is limited to the particular area of Karnataka State, India. Theoretically, the study includes many aspects of investors' behaviour such as investment patterns and preferences for different investment avenues, investment behaviour towards mutual funds, impact of reference group influence on investment of mutual funds, awareness of investors regarding ethical funds, or SRI (Socially Responsible Investment).

This study has also included some important behavioural biases which are – overconfidence, self-attribution, and familiarity.

In addition to the above, the study also includes how demographic variables and investors' investment behaviour is associated. The demographic variations, the impact of which will be investigated are - Gender, Age, Income, Education, Occupation and Saving.

LIMITATIONS OF THE STUDY:

- The study is limited to only Vijayapura and Kalaburagi districts of the North Karnataka region; hence, the findings of the study may not be generalized for the geographical regions which differ from this region geographically and demographically.
- The study limits to the analysis of mutual funds and general investment avenues. It does not take into account the comparison of all the investment avenues with each other.

LITERATURE REVIEW

Rakesh Kumar (2016) Evaluated the market penetration and investment pattern of mutual funds in India, there is very large scope for penetration of mutual funds both geographically and

investors classes. The huge hurdles are ignorance, risk aversion in India. Hence, the paper states that investors need to be made to look beyond the traditional avenues of investment through sensitization and education.

Sanjay Kumar Mishra and Manoj Kumar (2012) "How mutual fund investors objective and subjective knowledge impacts their information search and processing behaviour" in the article attempted to prove how Contrary to the popular belief that objective knowledge (OK) (that is, what is actually stored in the memory) and subjective knowledge (SK) (that is, what individuals perceive they know) differently impact information search and information-processing behaviour, with an empirical study conducted on 268 mutual funds (MF). Investors suggest no significant difference in the impact of OK and SK on the width and depth of information search and information processing. The study suggested that OK and SK significantly positively impact the width and depth of information search and information processing behaviour; however, no significant difference exists in the way they impact. The possible explanation put forward is that even though MF investors may suffer from self-deception (that is, pseudo expertise) and report high knowledge (that is, high SK), the impact of SK on actual investment behaviour is not significantly different from that of OK.

PROPOSED RESEARCH METHODOLOGY TO BE ADOPTED:

The methodology of the present study will be quantitative research. The study will be based on the empirical evidences collected in the form of the primary data.

- **Primary data:** The primary data will be collected from the various investors of Vijayapura and Kalaburagi districts of the north Karnataka region with the help of a well-designed questionnaire.
- **Secondary data:** The secondary data for the present study has been taken from the various journals, magazines and other publications.
- **Population of the data:** The population for the present study is the investors of the North Karnataka Regions of Kalaburagi and Vijayapura districts.
- **Sample design:** In the present study, the judgment sampling is considered to be used.
- **Sample size:** The proposed sample size for the study will be 600 respondents.
- **Data collection method:** A Structured Questionnaire will be made to capture the data.

SAMPLING TECHNIQUES

In the present study, Judgment sampling will be used to select the respondents.

PROPOSED STATISTICAL TOOLS CONSIDERED FOR THE STUDY:

Mean Score

One Sample t-test:

Exploratory Factor Analysis

Multiple Regressions:

Analysis of Variance (ANOVA):

PROPOSED SOFTWARE USED FOR DATA ANALYSIS:

SPSS 20.0 and Microsoft excel

REFERENCES

- Agrawal G.and Jain M., 2013, Investor's Preference towards Mutual Fund in Comparison to other Investment Avenues, *Journal of Indian Research*, 1(4), 115-131
- Angelidis, T., Giamouridis, D. and Tessaromatis, N., 2013, Revisiting mutual fund performance evaluation, *Journal of Banking and Finance*, 37(5), 1759-1776
- Animalia T., 2013, Factors influencing to invest in mutual funds in Tiruchirapalli, , *International Journal of Management and Development Studies, A Double-blind Peer Reviewed Journal*, 1(6), 107-110

- Anju, K.J. and Anuradha, P. S. (2015). Determinants of Investor's Behaviour – An Analytical Review. *SSRN Electronic Journal*, 59-79. DOI: 10.2139/ssrn.2665301
- Appleyard, L. ,2011, Community Development Finance Institutions (CDFIs):
- Asal, M., 2016, Testing for the presence of skill in Swedish mutual fund performance: evidence from a bootstrap analysis, *Journal of Economics and Business*, 88, 22-35
- Auer, B.R., 2016, Do Socially Responsible Investment Policies Add or Destroy European Stock Portfolio Value?, *Journal of Business Ethics*, 135(2), 381-397
- Auer, B.R., 2016,Do Socially Responsible Investment Policies Add or Destroy European, Stock Portfolio Value?, *Journal of Business Ethics*,135,(2), 381-397
- Ayadi, M.A., Chaibi, A. and Kryzanowski, L., 2016, Performance of Canadian hybrid mutual funds, *North American Journal of Economics and Finance*,38, 124-147
- Aytur, S., Marquis, T., Bors, P., Katz, J. and Bell, R., 2016, The Role of Health-Related Community Investing As a Strategy to Promote Active Living. Environment and Behaviour, 48(1), 89-110
- https://www.amfiindia.com/investor-corner/knowledge-center/advantages-of-investing-in-mutual-funds.html